

**THE COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

**D.T.E. 05-27**

**DIRECT TESTIMONY OF  
STEVEN A. BARKAUSKAS**

***PAYROLL, WAGES, AND BENEFITS, INCLUDING  
HEALTH, DENTAL, PENSIONS,  
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND  
PENSION/PBOP MECHANISM***

**IN SUPPORT OF  
BAY STATE GAS COMPANY'S  
REQUEST FOR INCREASE IN BASE REVENUE AND  
OTHER RATE MODIFICATIONS**

**EXH. BSG/SAB-1**

**APRIL 27, 2005**

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1

2 **I. INTRODUCTION**

3

4 Q. Please state your name and business address.

5 A. My name is Steven A. Barkauskas. My business address is NiSource Inc., 801 E.  
6 86th Avenue, Merrillville, Indiana 46410.

7

8 Q. By whom are you employed and in what capacity?

9 A. I am employed by NiSource Corporate Services Company ("NCSC") as Vice  
10 President Total Rewards. As head of the NiSource "Total Rewards" group, I  
11 develop and implement strategies for compensation and employee benefits for the  
12 employees of NiSource Inc. and its subsidiaries, including Bay State Gas  
13 Company ("Bay State" or the "Company"). In addition, I oversee the  
14 administration of the plans that comprise the employee compensation and benefits  
15 offerings for all of NiSource.

16

17 Q. Please describe your educational background and professional experience.

18 A. I received a Bachelor of Science degree in Accounting from the University of  
19 Illinois in 1987. I am a Certified Public Accountant (CPA) in Illinois and have  
20 been a member of the American Institute of Certified Public Accountants  
21 (AICPA) and the Illinois CPA Society since 1988.

22

I have held the position of Vice President Total Rewards at NiSource since July 2003. Before my current position, I was the Director Accounting Research and Reporting where I was involved in the accounting aspects of benefits and stock compensation plans. From 1998 to 2001, I was the Director of Finance and Information Technology at Leapnet, Inc., a technology consulting company. At Leapnet, I was involved in the development and maintenance of compensation and benefits programs, including corporate incentive, sales compensation, savings (401K), employee stock purchase and stock option programs. From 1987 to 1997, I worked for subsidiaries of Occidental Petroleum at various levels in finance, marketing and customer service.

Q. Have you previously testified before the Department of Telecommunications and Energy (the "Department") or any other regulatory commission?

A. No, I have not.

## II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. Bay State has asked me to assist it in supporting the following pro forma adjustments to test year expenses: Bay State Gas and NCSC-related union and non-union wages and salaries (i.e. payroll) as well as employee benefits, primarily health care costs, dental costs, pension and post-retirement benefits other than pensions ("PBOP"). While John E. Skirtich is presenting the test year and pro

1        forma rate year dollar amounts (including recovery method) for payroll, benefits,  
2        and pension and PBOP, I prepared the comparative analyses that establish the  
3        reasonableness of the wages and salaries, incentive compensation and benefits  
4        provided to employees of Bay State as well as NCSC employees whose time is  
5        allocated to Bay State.

6  
7    Q.    How is your testimony organized?

8    A.    My testimony is organized in nine sections (Sections III through XI). Section III  
9        discusses Bay State's overall approach to employee compensation including base  
10       pay (wages and salaries), incentive compensation (when added to base pay equals  
11       total cash compensation), and total compensation and benefits (total cash  
12       compensation plus benefits). Sections IV and V describe Department standards  
13       and the schedules prepared to support the testimony in accordance with those  
14       standards. Sections VI through VIII provide an overview of Bay State's  
15       compensation components for union and non-union employees. Section IX offers  
16       analysis that demonstrates that the total cash compensation paid to employees by  
17       Bay State is reasonable in relation to other investor-owned utilities and general  
18       industry in Bay State's service area. Section X describes Bay State's benefit  
19       plans and cost containment efforts. Section XI describes Bay State's pension and  
20       PBOP recovery, including the proposed pension and PBOP adjustment  
21       mechanism ("PPM").  
22

1    **III.    BAY STATE COMPENSATION**

2  
3    Q.    What approach does Bay State use to set overall compensation levels?

4    A.    Bay State's compensation methodology is consistent with the methods employed  
5           across the NiSource system.

6  
7    Q.    Please describe NiSource's compensation philosophy.

8    A.    NiSource's "total rewards" compensation philosophy is to compensate employees  
9           competitively in comparison with the utility industry as well as general industry  
10          and other employers in order to attract, retain and motivate qualified employees,  
11          while consistently meeting its requirements to provide safe and reliable least-cost  
12          service to its customers.

13  
14   Q.    Does NiSource employ a human resources consultant to assist it in determining  
15          the manner in which it should equitably compensate employees across its system,  
16          while ensuring such compensation is sufficiently competitive to attract and retain  
17          qualified employees?

18   A.    Yes. NiSource regularly relies on the advice and guidance provided by Hewitt  
19          Associates ("Hewitt"), a global human resources consulting firm. Hewitt assists  
20          NiSource in setting competitive salary ranges, establishing a program for  
21          administering salary increases and evaluating and recommending changes to the  
22          employee benefit plans.

1 Q. Has Hewitt helped NiSource develop a competitive program for payroll and  
2 benefits?

3 A. Yes. Hewitt has recommended a policy of compensating employees within a  
4 range determined for base pay and total compensation and benefits when  
5 compared to other employers. Hewitt helped NiSource implement a base pay  
6 management program to establish the reasonableness of, and monitor, base pay on  
7 an ongoing basis across NiSource. As part of the implementation process, Hewitt  
8 compared utility companies to companies in general industry and advised us that  
9 there was not a noticeable difference in pay levels, and that median pay levels in  
10 New England are roughly equal to median pay levels nationwide.

11

12 Q. Why did you select Hewitt to perform this type of analysis?

13 A. Hewitt is in an ideal position to assist with the Company's competitive analysis of  
14 both NCSC and Bay State's payroll and benefits for a number of reasons. First,  
15 as noted above, Hewitt is a global human resources consulting firm, which has  
16 access to both primary and secondary payroll and benefits market information.  
17 Second, NCSC has contracted with Hewitt to provide payroll and benefits  
18 administration duties, so it is familiar with our information systems, data,  
19 personnel and corporate structure. Further, Hewitt provides ongoing analysis of  
20 NiSource's compensation and benefits plans.

21

22 Q. Please continue.

1 A. With regard to employee benefits, NCSC ensures the reasonableness of the level  
2 of such benefits by periodically comparing them, at an individual plan level and  
3 as a package, against the benefit programs of other employers. As part of this  
4 process, the benefits offered by Bay State through its affiliation with NiSource are  
5 compared to the benefits offered at energy companies, including investor-owned  
6 utilities, and with offerings at companies from general industry. The total value  
7 and the employer-paid portion of the benefits are rated on a standardized value  
8 scale that reflects the deviation of the NiSource primary benefit offerings from the  
9 average offered by the competition.

10  
11 Q. What was Hewitt's conclusion about Bay State's competitiveness in  
12 compensation structure?

13 A. Hewitt concluded that Bay State's base pay was competitive when compared with  
14 the base pay at utilities and other employers, for both New England and  
15 nationwide. Hewitt also concluded that Bay State's benefits, driven mainly by the  
16 value of health and dental coverage plans, were competitive when compared to a  
17 similar group of employers.

18  
19 Q. What impact has this ongoing compensation calibration program had on Bay  
20 State's compensation?

21 A. Bay State's wages and salaries, as confirmed by Hewitt's analysis, have been  
22 reasonably consistent with the market. Therefore, relatively minor adjustments



1 have been required to ensure that the Company would continue to be able to  
2 attract and retain qualified employees in Massachusetts.

3  
4 Q. Are Bay State employees informed of the components of total compensation and  
5 benefits?

6 A. Yes. NiSource rolled out a campaign during 2004, which informed employees  
7 about the newly revised components of total compensation and benefits, and  
8 adjustments to compensation policies, which are applicable to employees.

9  
10 Q. What are those components?

11 A. Market Driven Base Pay – Base pay is set within a range around the competitive  
12 value of the individual's job. To ensure that each job was valued correctly,  
13 NiSource (with Hewitt) looked at, and evaluated, the compensation at other  
14 employers within the energy/utility industry and outside the industry for the same  
15 or similar type of work. NiSource established a pay range for each job based on  
16 75% to 125% of the median values derived during this study. NiSource's  
17 objective is to pay within this range.

18  
19 Job Scope Level/Incentive Level – Each job is assigned a job scope level that is  
20 based on the specific requirements of the job. The job scope level structure  
21 provides an overall framework for compensation and career development through  
22 six broad roles/levels of work within the enterprise. Each job scope level is

1 linked to an incentive range that also provides additional individual earning  
2 potential as a percentage of base salary if certain corporate, business unit and  
3 individual goals are met, as set each year by the NiSource Board of Directors and  
4 through agreement between each employee and his or her supervisor. The  
5 individual goals include items such as customer satisfaction, safety and reliability,  
6 continuing improvement and cost containment.

7  
8 Employee Benefits Program – Employee benefits, primarily retirement and health  
9 and welfare plan coverage, are not as tangible as cash, but they are a significant  
10 part of each employee's total compensation – on average, approximately 37 cents  
11 for every dollar of payroll.

12  
13 Performance Pay (Merit) Increases – Increases to base pay, or in some instances  
14 lump sum payments, are used to recognize and reward performance as measured  
15 through the annual performance review process.

16  
17 **IV. DEPARTMENT STANDARDS**

18  
19 Q. What does the Department require with regard to justification of the  
20 reasonableness of payroll levels and pro forma adjustments?

21 A. As I understand the Department's requirements, they are as follows.  
22 Union payroll adjustments must take effect before the midpoint of the rate year,  
23 must be based on signed contracts and must be reasonable. Non-union payroll

1 adjustments must be the result of an express commitment by management to grant  
2 the increase (within 6 months of the rate order or before), must be proportional to  
3 increases historically granted union employees, and be reasonable.

4  
5 In addition, the Department looks to make sure that total compensation results in a  
6 minimization of unit labor costs given the Company's overall business strategies.  
7 Companies are required to provide comparative analyses to demonstrate the  
8 reasonableness of payroll and benefits in relation to other New England investor-  
9 owned utilities and to other employers in the utility's service territory that  
10 compete for similar labor talent. Comparisons between industries are acceptable  
11 if the Company demonstrates that the positions compared are substantially similar  
12 to one another.

13  
14 **V. STUDIES TO CONFIRM COMPARATIVE REASONABLENESS**

15  
16 Q. What studies have you conducted or directed to be conducted that confirm the  
17 reasonableness of Bay State's wages, salaries and total compensation?

18 A. Schedules SAB-1 through SAB-9 have been included as part of Exhibit  
19 BSG/SAB-1 to support Bay State's rate year levels for total compensation and  
20 benefits. For comparisons between Bay State's compensation and the labor  
21 markets, gas utility data was used for positions that are specific to the gas  
22 industry. Where market data was required for positions that are not specific to the  
23 gas industry (e.g. Accountant) and for which utility data was not available for a

1 particular market, data from general industry was used as a proxy. Descriptions  
2 of the Schedules included with Exhibit BSG/SAB-1 follow.

3  
4 Schedule SAB-1 (Union/ Bay State – Northeast Utilities)

5 *Union Salary Survey for Utilities in Northeastern U.S -*  
6 compares union average hourly rates and bonuses paid to the  
7 average hourly rates and bonuses paid by utilities in the Northeast.

8  
9 Schedule SAB-2 (Bay State Union Payroll Increases)

10 Describes each Bay State union, and for each, provides  
11 collective bargaining agreement dates, date of agreed increase in  
12 payroll, and percentage increase.

13  
14 Schedule SAB-3 (Non-Union/ Bay State – Northeast Utilities)

15  
16 *Non-Union Salary Survey 1 -* compares Bay State non-  
17 union base salaries and total cash compensation to the salaries and  
18 total cash compensation of Northeast utilities.

19  
20 Schedule SAB-4 (Non-Union & Union Wage Increases)

21 *Historical Correlation of Non-Union and Union Wage*  
22 *Increases* – displays Bay State's wage increases for non-union and  
23 union groups from 1995 through 2005.

24  
25 Schedule SAB-5 (Non-Union/ Bay State – Metro Boston Industry)

26  
27 *Non-Union Salary Survey 2 -* compares Bay State salaries  
28 and total compensation to all employers in the greater metropolitan  
29 Boston area.

30  
31 Schedule SAB-6 (Non-Union/ NCSC – Northeast & Midwest  
32 Utilities)

33  
34 *Non-Union Salary Survey 3 -* compares NCSC base  
35 salaries and total cash compensation to utility companies in the  
36 Northeast and Midwest.  
37

1                    Schedule SAB-7 (Non-Union Merit Increase - Comparison)

2  
3                    *Non-Union Merit Increase Comparison* – compares Bay  
4 State's granted performance pay (merit) increases and the increases  
5 recognized for employee groups regionally, nationally and for  
6 utilities.  
7

8                    Schedule SAB-8 (Benefits Expense As Percent of Total  
9 Compensation)

10  
11                    *Comparison of Bay State's Benefit Expense As a Percent of*  
12 *Total Compensation to Utilities in the Northeast* – compares the  
13 cost of Bay State's benefit plans as a percent of its total cash  
14 compensation in relation to other gas industry employers in the  
15 Northeast.  
16

17                    Schedule SAB-9 (Non-Union Employee Benefits Comparison)

18  
19                    *Benefits Study* – compares the non-union benefits offerings  
20 at Bay State to a market basket composed of 15 energy companies  
21 and separately 15 companies from general industry.  
22  
23

24    Q.    Are Bay State's compensation levels in compliance with Department precedent  
25            for ratemaking purposes?

26    A.    Yes. Bay State and its affiliates' wages, salaries and benefits are determined with  
27            the express purpose of comparing the components of total compensation and  
28            benefits to appropriate external markets.  
29

30    Q.    Do you discuss your comparative compensation analyses further in your  
31            testimony?

32    A.    Yes. I refer to a number of these analyses in Sections VI and VII as well as  
33            provide a detailed discussion of each analysis in Sections IX and X.

1

2 **VI. UNION COMPENSATION**

3

4 Q. How many unions represent employee interests at Bay State?

5 A. Bay State manages relationships with four (4) different employee unions under  
6 six (6) separate agreements: Brockton Utility Workers' Union of America  
7 (UWUA) Local 273 (operating and clerical), Lawrence International Brotherhood  
8 of Electrical Workers (IBEW) 326, Northampton IBEW 486, and Springfield  
9 United Steel Workers of America (USWA) 12026 (operating and clerical).

10

11 Q. How are Bay State's union wage rates set?

12 A. Union wage rates are established periodically through the collective bargaining  
13 process. Collective bargaining consists of negotiations between an employer and  
14 a union in order to establish conditions for employment. The result of the  
15 collective bargaining process is a collective bargaining agreement that establishes  
16 the terms for increases in wages and benefits for affected employees. Federal  
17 and state law and labor agency regulation govern collective bargaining. In the  
18 collective bargaining process Bay State attempts to ensure that resulting  
19 agreements result in the least costs for ratepayers and are competitive with other  
20 employers.

21

22 Q. How does Bay State know its union wages are competitive with the market?

1 A. As shown in Exhibit BSG/SAB-1, Schedule SAB-1, in 2004, Bay State performed  
2 a survey of its hourly wage rates compared to other gas and electric utilities in the  
3 Northeast, including New England, New Jersey, New York, and Pennsylvania.  
4 The results of that survey indicated that the hourly rates paid to Bay State's union  
5 employees were comparable, and in some cases below, the average hourly rates of  
6 its utility peers.

7

8 Q. Has Bay State included the six (6) contracts with its unions in this initial filing?

9 A. Yes. They can be found at Exhibit BSG/SAB-2, and are marked as Exhibits  
10 BSG/SAB-2A through BSG/SAB-2F.

11

12 Q. When do increases under the collective bargaining contracts take effect?

13 A. Exhibit BSG/SAB-1, Schedule SAB-2 shows that five of the six collective  
14 bargaining agreements mandate a wage increase during the first six months of the  
15 rate year. The sixth union, Lawrence IBEW 326, will be renegotiating its contract  
16 during 2005, while the Department is likely to be investigating Bay State's  
17 proposed rates. Bay State will update its schedules and rate proposal when the  
18 outcome of those negotiations is known.

19

20 Q. How is total compensation and benefits determined for Bay State's union  
21 employees?

1 A. The total compensation and benefits of Bay State's union employees is  
2 determined, in a similar fashion as union wages, through collective bargaining.  
3 During the collective bargaining process, Bay State assesses changes in the value  
4 of the overall packages offered to union employees to ensure that the total  
5 compensation and benefits levels remain reasonable and commensurate to the  
6 labor market and other union and non-union employees at similar levels in the  
7 organization. Wherever possible, Bay State encourages its union employees to  
8 join in the benefit programs offered to non-union employees in order to streamline  
9 the administration of the benefit programs and provide the most value to the  
10 employees and their families at the least cost.

11  
12 Q. Is Bay State committed to payroll increases for union employees beyond the test  
13 year and before the midpoint of the rate year (i.e. May 31, 2006)?

14 A. Yes. The currently effective collective bargaining agreements require payroll  
15 increases of 1.5%, 2.0% or 2.5% through May 2006. The wage increases are  
16 effective in either May 2005, February 2006 or May 2006 and will continue  
17 through the term of each respective collective bargaining agreement. See Exhibit  
18 BSG/SAB-2A through Exhibit BSG/SAB-2F.

19  
20 **VII. NON-UNION COMPENSATION**

21 Q. How is base pay for non-union employees determined?



1 A. The base pay for Bay State's non-union employees is measured against a market  
2 basket of base pay for employees in similar positions at other employers. More  
3 specifically, NCSC has linked each position to a market position by comparing  
4 the job descriptions for positions at each NiSource subsidiary to the job  
5 descriptions associated with the market positions. In order to establish parity with  
6 other employers vying for qualified workers in NiSource's markets, base pay is  
7 set within a range that is established around the market median for individual  
8 jobs.

9

10 Q. How does NCSC establish the range within which non-union base pay can  
11 fluctuate around the market median?

12 A. The established salary range varies from 75% to 125% of the market median.  
13 This range allows individual managers in different locations within the NiSource  
14 system to differentiate base pay compensation among employees in similar jobs  
15 with varied skills, experience and level of responsibility.

16

17 Q. Please describe the Company's non-union total cash compensation structure.

18 A. NiSource's job scope level structure provides a framework for overall  
19 compensation, career advancement and leveling across the enterprise. As I  
20 mentioned earlier, six broad job scope levels delineate the levels of work for  
21 employees within NiSource ranging from hourly employees to the office of the  
22 President. Each job is assigned a job scope level, which is established based on

1 predetermined job scope level descriptors. Some of the levels are further  
2 subdivided for differences in job responsibility.

3  
4 Q. How does the job scope level help determine the appropriate level of total cash  
5 compensation for each employee?

6 A. The job scope level is a determinant in certain components of an employee's total  
7 cash compensation, and therefore affects the potential value of the overall  
8 package. A fixed incentive range is associated with each broad level that  
9 determines the minimum and maximum incentive payout as a percentage of base  
10 pay, assuming a payout was to occur. Increases to base pay for an individual job  
11 may occur through annual performance awards (merit increases), promotions  
12 from one job scope level to the next, progressions within a job scope level, and  
13 market adjustments if deemed necessary. Stock plan award eligibility and  
14 amounts awarded are also generally determined based on job scope level. The  
15 summation of the value of base pay, incentive compensation and stock plan  
16 awards determines the overall total reward potential available to employees within  
17 the job scope level structure when combined with employee benefits.

18  
19 Q. As a result of the project to implement the base pay management program during  
20 2004, what were Hewitt's recommendations with regard to the salary ranges for  
21 non-union positions?

1 A. Hewitt found that, compared to the market, Bay State's base pay for non-union  
2 employees was competitive. Therefore, it recommended that each individual  
3 salary should be compared to the salary range determined for each job and raised  
4 if the pay was below the bottom of the established range. Hewitt's findings are  
5 further supported by the analysis prepared in conjunction with this rate proposal  
6 as shown on Exhibit BSG/SAB-1, Schedule SAB-3 (Non-Union/ Bay State –  
7 Northeast Utilities).

8

9 Q. Does NiSource make any comparisons between base pay for non-union  
10 employees and union employees?

11 A. Yes. The determination of total compensation and benefits for non-union  
12 employees is generally related to the results of total compensation and benefits  
13 changes for the union groups, and vice versa.

14

15 Q. Does the Department require a comparison of pay between union and non-union  
16 employees?

17 A. Yes. The Department will determine, in granting non-union payroll increases, if  
18 there is an historical correlation between increases granted non-union employees  
19 and increases granted to union employees.

20

21 Q. Have you analyzed the historical correlation between union and non-union pay  
22 increases as required by the Department?

1 A. Yes. The results are shown on Exhibit BSG/SAB-1, Schedule SAB-4 (Non-  
2 Union & Union Wage Increases). The union increases generally have been  
3 commensurate with the increases awarded to non-union, non-exempt or exempt  
4 employees. An exception is noted for 3 years in 1999, 2000 and 2001. I believe  
5 the reason for the disparity in increases during this period reflects the effects of  
6 the economy and tightness in the overall labor markets during that period. The  
7 union employees, under their collective bargaining agreements, received wage  
8 increases at a pace slightly lower than the non-union wage increases. The labor  
9 markets in the period following 2001 have loosened some and the trends seen in  
10 the 1999 to 2001 period have reversed to an extent. Most of Bay State's unions  
11 were somewhat isolated by their collective bargaining agreements from the short-  
12 term impacts of the overall labor markets. However, it is my opinion that a  
13 reasonable correlation has been established between union and non-union pay  
14 increases during the past 11 years.

15  
16 Q. Is it Bay State's expectation that non-union employees will receive performance  
17 adjustment increases before the mid-point of the rate year?

18 A. Yes. As shown on Exhibit BSG/SAB-1, Schedule SAB-4 (Non-Union & Union  
19 Wage Increases), Bay State has generally awarded annual non-union pay  
20 increases each year, and it fully expects this trend to continue into the rate year.  
21 Accordingly, an annualized pro forma increase of two percent (2.0%), associated

1 with Bay State's 2006 non-union pay, is reflected in the Skirtich Testimony. See,  
2 Exh. BSG/JES-1, Schedule JES-6, Page 2 of 20.

3  
4 **VIII. INCENTIVE COMPENSATION AND PERFORMANCE ADJUSTMENT**  
5 **INCREASES**

6  
7 Q. Is individual employee performance a factor in annual total cash compensation?

8 A. Yes. A portion of each employee's annual total cash compensation is tied to the  
9 performance of the employee's business unit and individual performance through  
10 the NiSource Corporate Incentive Plan. Nearly all union and non-union  
11 employees of the Company are eligible for an annual cash award under the plan,  
12 or in some cases a specialized incentive plan. Under the terms of the plan, a  
13 discretionary amount is available to employees based on individual performance  
14 as determined by an employee's manager or supervisor. Like the incentive plan,  
15 performance adjustments are performance-based in that they are determined by  
16 the degree to which individual performance goals are achieved. I describe below  
17 the employee performance evaluation process. Finally, NiSource also gives spot  
18 awards to recognize excellence in quality improvement, customer service and  
19 satisfaction, cost savings, teamwork and process improvements.

20  
21 Q. Is compensation based on performance a form of compensation offered to attract  
22 and retain qualified employees?

23 A. Yes. This is consistent with the compensation structure of other utilities.

1

2 Q. In general, how is incentive compensation awarded?

3 A. If performance objectives are reached, an incentive pool may be established by  
4 the NiSource Board of Directors in an amount that corresponds to the bottom of  
5 each employee's incentive range "trigger" to the "maximum" of the range. The  
6 percentage of an individual employee's base pay that is available for the cash  
7 incentive is dependent on performance of the employee's business unit (i.e. the  
8 employee's team) in relation to objectives (for example, business unit operating  
9 income) and the employee's individual performance as determined by his or her  
10 supervisor. Accordingly, a portion of an incentive award is based on a formula  
11 derived from the results of both corporate and business unit objectives, while the  
12 remainder is made at the discretion of the employee's supervisor. Both incentive  
13 payments and performance adjustments are made in February or March of the  
14 year following the year for which performance is measured. If corporate  
15 performance objectives are not reached in a particular year, no pool is established  
16 for payout under the plan.

17

18 Q. How does Bay State ensure that individual employees, managers, supervisors and  
19 executives are committed to meeting the needs of customers, such as service  
20 quality and service reliability, and how does this fit into the incentive program?

21 A. The discretionary portion of the incentive program is based on performance  
22 management linked to the goals of service quality, reliability and other customer-

1 related outcomes at Bay State. The Performance Management Program is  
2 executed through the annual evaluative process embodied in the Performance  
3 Management Worksheet ("PMW"). A Bay State employee PMW contains annual  
4 performance objectives and articulates the means of measuring the employee's  
5 progress in relation to the objectives established. Each employee is actively  
6 involved in the development of his or her PMW, with input from his or her  
7 supervisor, and the employee's progress is reviewed and discussed with the  
8 employee periodically throughout the year. The results of the PMW process are  
9 used to aid in determining whether an employee is entitled to receive a  
10 discretionary award. The PMW process is also used as an aid in determining the  
11 amount of a performance award for an employee.

12  
13 Q. Does every employee participate in the Corporate Incentive Program?

14 A. No. Employees in the Large Customer Relations and Gas Supply groups are not  
15 considered as part of the Corporate Incentive Plan. Instead, these groups are  
16 covered by specialized incentive plans that make awards available based on other  
17 individual objectives as well as group performance. While similar to the goals  
18 under the PMWs, incentive goals incorporated into these specialized plans include  
19 business customer relations and financial performance. However, performance  
20 relative to the Corporate Incentive Plan objectives is a component of any potential  
21 payout made under these specialized plans.

1 **IX. DETAIL OF COMPARATIVE COMPENSATION ANALYSIS**  
2

3 Q. Has Bay State performed a comparative analysis to demonstrate the  
4 reasonableness of its total cash compensation levels?

5 A. Yes. As mentioned above, comparative analyses have been prepared that  
6 examine compensation and benefits expense levels relative to other investor-  
7 owned utilities in New England and the Northeast and to companies in other  
8 market areas where Bay State and NCSC compete for similarly-skilled  
9 employees. These analyses show that Bay State's and NCSC's compensation and  
10 benefits levels are reasonable when compared with other applicable regional  
11 utilities and employers.  
12

13 Q. What source material did you rely on upon preparing these analyses?

14 A. I used a variety of industry surveys that provide survey job descriptions, a list of  
15 participating organizations, a variety of levels in multiple functional areas, have  
16 clearly defined data elements (base salary, bonus, total cash) and have appropriate  
17 scope data (geographic location, revenue size, etc.). Each of the surveys relied  
18 upon in my comparisons is, in my opinion, a reliable survey source. This survey  
19 data is also relied upon by the Company to establish market-driven base pay on an  
20 ongoing basis. Additionally, I used annual report data to gather comparative  
21 information for an analysis of total compensation and benefits.  
22



1        A.       Comparative Analysis for Union Employee Compensation

2  
3       Q.     Please review the comparative analysis that was performed in relation to union  
4           total cash compensation.

5       A.     Exhibit BSG/SAB-1, Schedule SAB-1 (Union / Bay State – Northeast Utilities),  
6           which I have titled *Union Salary Survey for Utilities in Northeastern U.S.*,  
7           provides a comparison of union average hourly rates and bonuses paid to the  
8           average hourly rates and bonuses paid by Northeast utilities.

9  
10      Q.     What source material was used in creating Schedule SAB-1 (Union/ Bay State –  
11           Northeast Utilities)?

12      A.     The American Gas Association (“AGA”) salary survey for 2003 (“2003 AGA  
13           Survey”) was the basis for Exhibit BSG/SAB-1, Schedule SAB-1 (Union / Bay  
14           State – Northeast Utilities). The 2003 AGA Survey provides competitive salary  
15           information by region for jobs within the gas, and to a lesser extent electric,  
16           utilities industry and reasonably represents the labor market for which Bay State  
17           competes for skilled employees.

18  
19      Q.     Is this the type of material generally relied upon by compensation and benefits  
20           professionals in the human resources profession?

21      A.     Yes. The 2003 AGA survey is regarded as a reliable survey source that provides  
22           salary information for jobs within the utilities industry.

1 Q. Which states were included in the comparative utility salary information?

2 A. The 2003 AGA Survey displays competitive salary information from the region  
3 identified in the 2003 AGA Survey as "Northeast," which includes the  
4 Northeastern United States: Connecticut, Maine, Massachusetts, New Hampshire,  
5 New Jersey, New York, Pennsylvania, Rhode Island, and Vermont.

6

7 Q. Which Bay State union positions were included in the survey results?

8 A. Eight (8) union jobs were matched to the 2003 AGA Survey. By "matched," I  
9 mean that these positions were confirmed to be comparable based on job content.  
10 In addition, the 50th percentile or median data point for hourly pay rate and the  
11 average annual cash bonus awarded based on prior years' performance were  
12 collected from the survey.

13

14 Q. If the study was concluded in 2003, did you update the data presented?

15 A. Yes. The effective date of the 2003 AGA Survey was April of 2003. For  
16 comparative purposes, we employed an annual aging factor of 3.6% (based on  
17 2004 projected salary increases for union, utilities industry) for the 16 months  
18 between the date of the survey and the date of the comparative analysis (August  
19 2004). An aging factor is commonly used in the human resources profession to  
20 reflect the rate of pay movement in a broader market for a subsequent year, in this  
21 case 2004.

22

1 Q. What were the results of your analysis, contained in Schedule SAB-1 (Union /  
2 Bay State – Northeast Utilities)?

3 A. Exhibit BSG/SAB-1, Schedule SAB-1 (Union / Bay State – Northeast Utilities)  
4 demonstrates that the average hourly rate paid by Bay State, per position, is  
5 \$26.68, with bonus compensation of \$1,881, as compared to an hourly rate of  
6 \$25.93 paid by Northeast utilities, with bonuses of \$1,783 on average (for utilities  
7 that paid bonuses). When compared based on the average hourly rate, the  
8 Company's union rates are 2.9% higher than the industry average for the  
9 Northeast. If computed on an hourly basis with bonus, the Company's union rates  
10 are 3.0% higher than the industry average for the Northeast.  
11

12 Q. Do the results shown on Schedule SAB-1 (Union / Bay State – Northeast  
13 Utilities) imply that Bay State overcompensates its union employees because it  
14 pays on average an hourly rate higher than its counterparts in the region?

15 A. No. Based on the total rewards philosophy and competitive objectives of  
16 NiSource and Bay State, employees should be paid within the "market range" for  
17 the market job or market job group to which their job is linked. As previously  
18 mentioned, NiSource defines the "market range" as 75% to 125% of the  
19 competitive market median as determined by salary surveys. Exhibit BSG/SAB-  
20 1, Schedule SAB-1 (Union / Bay State – Northeast Utilities) demonstrates that  
21 Bay State's union salaries are well within the appropriate range.  
22

1        B.       Comparative Analysis for Non-Union Compensation

2       Q.       Please explain the Company's overall approach to determining the reasonableness  
3               of its non-union compensation.

4       A.       In preparing the comparative analyses for non-union compensation, the Company  
5               examined the market areas where both Bay State and NCSC compete for similarly  
6               skilled employees. It was determined that in order for the Company to be as  
7               thorough as possible, it needed to look at a number of different regions and types  
8               of companies because the employees that do or could serve Bay State are located  
9               in New England, the Northeast and Midwest and have skills that are transferable  
10              amongst industries. Therefore, as I discuss below, we undertook an examination  
11              of a number of different surveys of non-union compensation.

12  
13      Q.       Please review the comparative analyses performed in relation to non-union total  
14               cash compensation.

15      A.       Exhibit BSG/SAB-1, Schedule SAB-3 (Non-Union/ Bay State – Northeast  
16               Utilities), entitled *Non-Union Salary Survey-1*, provides a comparison of Bay  
17               State's non-union base salaries and total cash compensation to the salaries and  
18               total cash compensation of Northeast utilities. This survey was also created using  
19               the 2003 AGA Salary Survey as its primary source material.

1 Q. Which Bay State non-union positions were included in the survey results?

2 A. Ten (10) non-union jobs were matched to the survey and for which data was  
3 collected.

4  
5 Q. What were the results of your analysis?

6 A. Exhibit BSG/SAB-1, Schedule SAB-3 (Non-Union/ Bay State – Northeast  
7 Utilities) shows that the average base salary paid by Bay State for study positions  
8 combined is \$76,600, with total cash compensation of \$82,000, as compared to an  
9 average base salary of \$79,000 paid by utilities in the Northeast, with total cash  
10 compensation of \$85,200. When compared based on base salary, Bay State are  
11 paying below competitive levels for utilities in the Northeast by 3.0%, and 3.7%  
12 in total cash compensation.

13

14 Q: Do the results on Schedule SAB-3 (Non-Union/ Bay State – Northeast Utilities)  
15 imply that Bay State under-compensates its non-union employees because it pays  
16 on average compensation lower than its counterparts in the region?

17 A. Based on NiSource's total rewards philosophy and competitive objectives,  
18 employees generally should be paid within the market range for the market job or  
19 market job group to which their job is linked. As previously noted, at NiSource  
20 market range is defined as 75% to 125% of the competitive market median as  
21 determined by salary surveys. Based on the results shown in this schedule, the  
22 Company is paying competitively overall. However a review by job indicates that

1 two positions are at or less than 75% of the competitive market in base salary and  
2 total cash compensation: Call Center Supervisor and Engineer Level 3. This may  
3 be due to a number of reasons when compared to the market, such as varying  
4 company practices (of those companies who participated in the survey) in regards  
5 to salary/bonus mix and individual incumbent's experience, knowledge and  
6 technical expertise.

7  
8 Q. Did you conduct any additional analysis to confirm the reasonableness of Bay  
9 State's non-union base salaries and total cash compensation to the market salaries  
10 and total cash compensation?

11 A. Yes. I conducted an analysis to confirm the reasonableness of Bay State's salaries  
12 when compared with other types of employers in the greater metropolitan Boston  
13 area. My results are contained on Exhibit BSG/SAB-1, Schedule SAB-5 (Non-  
14 Union/ Bay State – Metro Boston Industry). This schedule is entitled *Non-Union*  
15 *Salary Survey – 2*.

16  
17 Q. What primary data source did you use to complete this analysis?

18 A. The Mercer Metropolitan Benchmark salary survey ("2003 Mercer Survey") was  
19 used as the primary data source of Exhibit BSG/SAB-1, Schedule SAB-5 (Non-  
20 Union/ Bay State – Metro Boston Industry). The 2003 Mercer Survey provides  
21 competitive salary information by metropolitan area and represents over 2,300  
22 participating organizations for 328 positions.

1

2 Q. Is the 2003 Mercer Survey the type of information relied upon by professionals in  
3 the human resources field to perform this kind of comparative analysis?

4 A. Yes. The 2003 Mercer Survey is regarded as a reliable survey source and unique  
5 in that it provides competitive salary information by metropolitan area.

6 Consistent with what human resources professionals seek in a reliable survey, the  
7 2003 Mercer Survey provides survey job descriptions, a list of participating  
8 organizations, covers a variety of levels in multiple functional areas, has clearly  
9 defined data elements (base salary, bonus, total cash) and has appropriate scope  
10 data (geographic location, revenue size, etc.).

11

12 Q. What group was examined in order to create a comparison sample?

13 A. The area from which competitive salary information was collected was the greater  
14 metropolitan Boston area. Data was collected from all surveyed companies,  
15 representing all industry types.

16

17 Q. How many non-union jobs were matched?

18 A. A total of five (5) non-union jobs were matched to the survey and for which data  
19 was collected.

20

21 Q. Did you rely on current data?

1 A. Exhibit BSG/SAB-1, Schedule SAB-5 (Non-Union/ Bay State – Metro Boston  
2 Industry) relies upon data from the 2003 Mercer Survey, effective as of March  
3 2003. In order to bring the data current to August 2004 for comparative  
4 purposes, similar to the other studies I provided, the data was aged using an  
5 annual aging factor of 3.6% (based on 2004 projected salary increases for non-  
6 union, general industry) over 17 months. This aging factor reflects the rate of pay  
7 movement in the market for plan year 2004.  
8

9 Q. What results are demonstrated by Schedule SAB-5 (Non-Union/ Bay State –  
10 Metro Boston Industry)?

11 A. Exhibit BSG/SAB-1, Schedule SAB-5 (Non-Union/ Bay State – Metro Boston  
12 Industry) shows that the average base salary paid by the Company for study  
13 positions combined is \$40,000, with total cash compensation of \$41,800, as  
14 compared to an average base salary of \$39,900 paid by all industries combined in  
15 the greater metropolitan Boston area, with total cash compensation of \$40,100.  
16 When compared based on base salary, the Company is paying at competitive  
17 levels for general industry in the Boston area and slightly above (4.3%) in total  
18 cash compensation. This may be due to differences in company performance, as  
19 they relate to varying bonus compensation payouts.  
20

21 Q. Please describe Schedule SAB-6 (Non-Union/ NCSC – Northeast & Midwest  
22 Utilities), which is entitled *Non-Union Salary Survey – 3*.



1 A. Assuming that the Department would apply the same standards for reasonableness  
2 of Bay State's salaries to the NCSC salaries allocated or directly charged to Bay  
3 State, I analyzed the salaries for non-union NCSC staff as compared to utility  
4 salaries in the Northeast and the Midwest. Exhibit BSG/SAB-1, Schedule SAB-6  
5 (Non-Union/ NCSC – Northeast & Midwest Utilities) compares NCSC staff base  
6 salaries and total cash compensation to the salaries and total cash compensation of  
7 the Northeast and Midwest utilities.

8  
9 Q. What survey source did you review to gather your comparative data for Schedule  
10 SAB-6 (Non-Union/ NCSC – Northeast & Midwest Utilities)?

11 A. I relied upon the 2003 AGA Survey for this analysis and gathered the regional  
12 competitive salary information from the Northeast and Midwest regions. As I  
13 described earlier, Northeast includes Connecticut, Maine, Massachusetts, New  
14 Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont.  
15 The Midwest region includes Illinois, Indiana, Iowa, Michigan, Minnesota,  
16 Missouri, Ohio, and Wisconsin.

17  
18 Q. Why do you include the Midwest in your analysis?

19 A. The reason for the comparison to the Midwest region is that a large number of  
20 these positions are staffed either in Merrillville, Indiana, or in Columbus, Ohio.  
21 Therefore, the Midwest region represents the market from which NCSC recruits  
22 for these positions. Additionally, I thought it would be helpful to the Department

1 to see what it might cost to staff the positions locally, if Bay State were unable to  
2 avail itself of its service company based in the Midwest.

3  
4 Q. Which positions were reviewed for inclusion in Schedule SAB-6 (Non-Union/  
5 NCSC – Northeast & Midwest Utilities)?

6 A. A total of 14 non-union jobs were matched to the survey. For comparison  
7 purposes, the median data point for base salary and total cash compensation was  
8 collected from the survey.

9  
10 Q. What conclusions can be drawn from Schedule SAB-6 (Non-Union/ NCSC –  
11 Northeast & Midwest Utilities)?

12 A. Exhibit BSG/SAB-1, Schedule SAB-6 (Non-Union/ NCSC – Northeast &  
13 Midwest Utilities) shows that the average base salary paid by NCSC for the study  
14 positions combined is \$76,100, with total cash compensation of \$81,900, as  
15 compared to an average base salary of \$79,800 paid by utilities in the 2003 AGA  
16 Survey Northeast region for those positions, with total cash compensation of  
17 \$85,700. Overall, NCSC base salaries were 4.7% below utilities in the Northeast  
18 region. NCSC total cash compensation was 4.4% below utilities in the Northeast  
19 region. When compared to direct employment competitors, that is, utilities  
20 located in the Midwest region, NCSC base salaries are below market by 3.0%, but  
21 NCSC total cash compensation is comparable with other utilities.

1 Q. Are there any other conclusions to be drawn from Schedule SAB-6 (Non-Union/  
2 NCSC – Northeast & Midwest Utilities) with regard to Bay State's ability to staff  
3 these types of positions locally?

4 A. Based on this review, in order to staff these same positions in the Northeast  
5 region, Bay State may have to pay a premium for base salaries and total cash  
6 compensation of up to 4.0% to 5.0%, and possibly more, depending on the  
7 position.

8

9 C. Performance Adjustments (Merit Increases)

10

11 Q. Have Bay State and NCSC granted or planned to grant performance adjustments  
12 to non-union employees in 2004, 2005 and 2006 and are these costs included in  
13 the cost of service?

14 A. Yes. The test year revenue requirement reflects pro forma adjustments to capture  
15 (1) the annualized 2004 non-union performance adjustments, which took place in  
16 March 2004, and (2) the 2005 and 2006 performance adjustments. As explained  
17 earlier in my testimony, the non-union performance adjustments take place  
18 annually in February or March, and the Company has already awarded the 2005  
19 adjustments. Further, the Company fully expects this trend to continue in March  
20 2006, which is before the mid-point of the rate year. Accordingly, Mr. Skirtich  
21 has reflected each of these merit increases in his cost of service as shown on Exh.  
22 BSG/JES-1, Sch. JES-6, P. 2 of 20.

23

1 Q. What was the purpose in creating Schedule SAB – 7 (Non-Union/ Merit Increases  
2 - Comparison), which is entitled *Benefits Study*?

3 A. Exhibit BSG/SAB-1, Schedule SAB – 7 (Non-Union/ Merit Increases -  
4 Comparison) provides a comparison between Bay State's performance  
5 adjustments (as a percent of base pay) for non-union employees in 2004 and 2005,  
6 and those for other utilities and employers. The data in Exhibit BSG/SAB-1,  
7 Schedule SAB – 7 (Non-Union/ Merit Increases - Comparison) is also categorized  
8 nationally and regionally.  
9

10 Q. What data source did you rely upon in creating Schedule SAB – 7 (Non-Union/  
11 Merit Increases - Comparison)?

12 A. I relied upon three survey sources covering a large number of companies within  
13 the utilities industry and/or located in the Northeast/East region to compile this  
14 analysis. They were the 2004/2005 US Compensation Planning Survey by  
15 Mercer Human Resource Consulting, that categorizes nearly 1,600 businesses into  
16 35 industry groups providing compensation data by industry and region; the  
17 Salary Budget Survey for 2004/2005 by WorldatWork, that categorizes 2,774  
18 organizations into 44 industry groups and analyses data by industry and region;  
19 and, the U.S. Salary Increase Survey for 2004 and 2005 by Hewitt, that examines  
20 the data of 1,185 organizations from 43 industry groups by industry and region.  
21

1 Q. How did you define the group against which you made your comparison in  
2 Schedule SAB – 7 (Non-Union/ Merit Increases - Comparison)?

3 A. Exhibit BSG/SAB-1, Schedule SAB – 7 (Non-Union/ Merit Increases -  
4 Comparison) uses the Northeast or East region, which includes the following  
5 states: Connecticut, Delaware, District of Columbia, Maine, Maryland,  
6 Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode  
7 Island, Vermont, Virginia, and West Virginia. The industry type selected for  
8 Exhibit BSG/SAB-1, Schedule SAB – 7 (Non-Union/ Merit Increases -  
9 Comparison) is the utilities industry.

10

11 Q. Are there any drawbacks to the uses of this data?

12 A. Yes. Unfortunately, the reports do not provide data for the utilities industry  
13 specific to the Northeast region or to a particular state, such as Massachusetts.

14

15 Q. Does this impair the validity of your analysis in this or any other study?

16 A. In my judgment, no. Typically, human resources professionals gather data and  
17 make merit recommendations to management based on salary increase data first at  
18 the national level; second, at the specific industry level; and then third, finishing  
19 with a review of circumstances affecting any particular employee groups.

20

21 Q. Which employee classifications were surveyed for use in Schedule SAB – 7  
22 (Non-Union/ Merit Increases - Comparison)?

1 A. To ensure the Company's increase budget is competitive across all groups of  
2 employees compared to the labor market, salary increase information was  
3 gathered for executive, management, exempt, non-exempt salaried, and non-  
4 exempt hourly nonunion classifications.

5

6 Q. How did you define the terms "executive," "management," "exempt" and "non-  
7 exempt?"

8 A. Typically, executive level in the surveys is defined as director level and above,  
9 while management level is defined as senior managers and managers. The  
10 exempt level is typically defined as professional staff, which would include  
11 management if no separate management category was provided in the survey.  
12 Non-exempt level is defined as those exempt from the provisions of the Fair  
13 Labor Standards Act.

14

15 Q. What information did you use that is specific to Bay State?

16 A. In line with NiSource's and Bay State's total rewards philosophy and competitive  
17 objectives, actual performance adjustments as a percent of base pay for 2004 and  
18 2005 were collected. This amount excludes any promotional and/or special  
19 adjustments.

20

21 Q. What results are demonstrated by Schedule SAB - 7 (Non-Union/ Merit Increases  
22 - Comparison)?

1 A. Exhibit BSG/SAB-1, Schedule SAB – 7 (Non-Union/ Merit Increases -  
2 Comparison) demonstrates that the Company's non-union performance  
3 adjustment increases in 2004 of 2.3% and 3.0% for the non-union groups other  
4 than executive are slightly below, but consistent with the average increases of  
5 other companies within the region and the utility industry (3.2% to 3.4%--  
6 excluding executive level). Similarly, the performance adjustment increases for  
7 non-union employees of 2.3% and 3.0% for 2005 is consistent with what is being  
8 projected by other companies within the region and the utility industry—overall  
9 3.3% to 3.6% (excluding executive level). The Company's executive group did  
10 not receive performance adjustment increases in 2004 and 2005.

11  
12 D. Total Cash Compensation versus Benefits

13  
14 Q. Please describe Schedule SAB-8 (Benefits Expense As A Percent of  
15 Compensation), which is entitled *Non-Union Merit Increase Comparison*.

16 A. Exhibit BSG/SAB-1, Schedule SAB-8 (Benefits Expense As A Percent of  
17 Compensation) compares the level of benefits as a percent of total cash  
18 compensation for all Bay State employees (union and non-union) to those of other  
19 gas utilities in the Northeast. The comparative data was derived from the 2003  
20 annual filings on for the utilities shown on the schedule.

21  
22 Q. Did you limit your inquiry to specific employee classifications for the purposes of  
23 Schedule SAB-8 (Benefits Expense As A Percent of Compensation)?

1 A. No. The metric information on benefits was gathered for both union and non-  
2 union Bay State employees, in order to make the appropriate and reasoned  
3 comparison to total cash compensation.  
4

5 Q. What conclusions can be drawn from Schedule SAB-8 (Benefits Expense As A  
6 Percent of Compensation)?

7 A. For the Company, benefits expense represents approximately 36.5% of total cash  
8 compensation as compared with a median value of 36.0% for the utilities shown.  
9 The results of this analysis demonstrate that Bay State's benefit expense as a  
10 percent of total compensation is within the norm for the industry.  
11

12 **X. EMPLOYEE BENEFITS**  
13

14 Q. What are the benefits offered by Bay State to attract and retain qualified  
15 employees?

16 A. Benefits are an important component of any compensation structure and are  
17 necessary to ensure Bay State is able to attract and retain qualified employees.  
18 Bay State's benefit plans correspond to the plans offered throughout the NiSource  
19 system, including health and welfare plans (health care coverage, dental coverage,  
20 vision care, term life insurance and disability insurance), a defined benefit  
21 pension plan, a 401(K) savings plan, a stock purchase plan and paid time off  
22 (vacation, holiday and sick pay).  
23



1 Q. Is it necessary to provide health care and dental coverage to employees?

2 A. Yes. Health care coverage is important to Bay State's employees and their  
3 families. The Company's experience has demonstrated that quality health care  
4 and dental coverage help retain employees and encourage longevity with the  
5 Company. Therefore, health care and dental coverage plans are offered to all  
6 employees of Bay State, from field personnel to executives.

7  
8 Q. Does each employee have access to the same level of benefits?

9 A. The provisions applicable to particular benefits offered to each employee depend  
10 on the employee's classification, whether he or she is a member of a union group  
11 or is a non-union employee, and the individual benefits options the employee  
12 selects. However, Bay State does provide the standard benefit offerings to all  
13 employee groups.

14  
15 Q. Is Bay State including a pro forma adjustment to health care and dental cost?

16 A. Yes. The adjustment, \$741,045, is contained in the Skirtich schedules, Exh.  
17 BSG/JES-1 at Schedule JES-6, page 4 of 20.

18  
19 Q. What is the Department's standard for including such benefits in rates?

20 A. Each company has to demonstrate that its costs are reasonable and that the  
21 company has acted to constrain increases in the costs associated with those

1 benefits. Any pro forma adjustment over test year amounts must be known and  
2 measurable.

3  
4 A. Health Care Plan Costs

5  
6 Q. Does Bay State incur its own health care costs or are these costs incurred by  
7 NCSC as its agent?

8 A. NCSC obtains health care coverage for Bay State employees and retirees.  
9

10 Q. How does NCSC obtain such coverage?

11 A. Benefit coverage is competitively bid through a request-for-proposal process.  
12 Proposals are solicited from insurance carriers and/or third party administrators.  
13 These proposals are reviewed and finalists are selected based upon the financial  
14 stability of the carrier or third-party administrator, the breadth of its provider  
15 network, network provider discounts, administrative capabilities, and price.  
16 Finalists are interviewed and further negotiations take place regarding pricing for  
17 the services offered. Carriers and third-party administrators are selected based  
18 upon their ability to provide quality service in the most cost-efficient manner. In  
19 addition, certain of the collective bargaining agreements specifically require that  
20 certain carriers be used to provide coverage. Rates are negotiated with such  
21 carriers during the annual renewal process.  
22

1 Q. Has Bay State been subject to substantial increases in its health care plan costs in  
2 order to provide such care to union and non-union employees?

3 A. Yes. Like many companies in the United States, Bay State experienced  
4 significant increases in health care costs in each year from 2001 to 2004. The  
5 percentage increases in costs year-over-year were in excess of ten percent.  
6

7 Q. How do the increases that Bay State has experienced in health care and dental  
8 costs compare to cost increases at the national level?

9 A. The trends affecting health care in the United States over the most recent three to  
10 four years have had a similar, although somewhat mitigated, impact on Bay  
11 State's expense over that same period. NCSC continually attempts to control  
12 increases in NiSource's health care costs. Many of these efforts have been  
13 effective in producing savings in the face of the ever-increasing cost of providing  
14 health care to employees.  
15

16 Q. Is Bay State aware of a post-test year increase in health care cost obligations that  
17 will impact its request in this rate proceeding?

18 A. Yes. Bay State's health care rate adjusters have identified that costs for 2005 will  
19 increase by \$684,618. See, Exhibit BSG/JES-1, Schedule JES-6, Page 4 of 20.  
20

21 Q. How has Bay State attempted to reduce and control its health care costs?

1 A. NCSC, on behalf of Bay State, has undertaken many initiatives to limit the cost of  
2 providing care to Bay State employees. NCSC continues to review plan coverage  
3 and to search for more efficient ways to offer and administer plan coverage.  
4 More costly health care indemnity plans have been replaced with more efficient  
5 preferred provider organization (PPO) plans, and the Company self-insures many  
6 of its plans which reduces underwriting margins. Plans that offer coverage  
7 through provider networks are used as often as possible to take advantage of  
8 provider discounts. Opt-out credits are paid to those employees who have  
9 alternative health care coverage and elect not to participate in the plans. These  
10 credits are offered at a fraction of the cost that would otherwise be required to  
11 provide coverage for the employees who opt-out. Such programs have been  
12 offered to both union and non-union employees.

13  
14 As with other parts of its business, Bay State enjoys some purchasing power due  
15 to its affiliation with NiSource in order to ensure competitive rates from its  
16 carriers. In addition, corporate-wide programs offer a larger pool of covered  
17 participants, which provides for a larger spread of risk. The larger risk pool helps  
18 contain increases in health care costs.

19  
20 Q. Does that mean that employees are subject to increases commensurate with those  
21 imposed on Bay State?

1 A. Yes. Since employees share on a percentage-of-cost basis in the cost of the health  
2 plans that Bay State makes available to them, employees have experienced  
3 increases in their contributions toward health coverage coincident with the  
4 increases the Company has experienced.

5  
6 B. Dental Plan Costs

7  
8 Q. How does Bay State procure dental coverage for its employees?

9 A. The process of procuring dental coverage for Bay State employees corresponds  
10 with the process for procuring health care described previously.

11  
12 Q. Has Bay State experienced increases in the cost of its annual obligation for dental  
13 coverage for its union and non-union employees?

14 A. Although not as pronounced as those increases indicated for health care, increases  
15 have been incurred in the cost of providing dental coverage to employees. For  
16 2004, the percentage increase in cost, year-over-year, was approximately seven  
17 (7) percent. Bay State's estimated obligation for 2005 indicates that the coverage  
18 cost post-test year will increase by 20.3 percent. The efforts undertaken to control  
19 dental costs are the same as those described previously for health care.

20  
21 Q. How does Bay State assess how its employee benefit plans compare to other  
22 companies?

1 A. On behalf of Bay State, NCSC periodically performs studies to compare benefits  
2 at a program level and as a package against the benefit programs of a market  
3 basket of similar offerings at other employers. The standard Bay State benefit  
4 offerings are compared to the benefits offered at other energy companies,  
5 including investor-owned utilities, and separately against offerings at companies  
6 in general industry. The total value and the employer-paid portion of the benefits  
7 are rated on a standardized value scale that reflects the deviation of the Bay State  
8 standard benefit offerings against the average of the selected cohort. In addition  
9 to the studies, employees within the NCSC Human Resources and Finance  
10 Departments along with Hewitt and its other benefits vendors, conduct ongoing  
11 evaluations regarding benefits trends that are observed in the marketplace as well  
12 as alternative means of reducing the cost of providing the necessary benefits.

13  
14 Q. What were the results of the latest Hewitt study performed regarding NiSource  
15 and Bay State's benefits offerings?

16 A. Exhibit BSG/SAB-1, Schedule SAB-9 (Non-Union Employee Benefits  
17 Comparison), which is entitled *Comparison of Bay State's Benefit Expense As A*  
18 *Percent of Total Compensation To Utilities In the Northeast*, shows the results of  
19 the study recently performed by Hewitt in early 2005. The study shows that the  
20 overall employer-paid value of Bay State's benefits plans is 5.6% higher than the  
21 average of the selected energy industry cohort. As compared with general  
22 industry, where benefits are generally not provided at the same level, the

1 employer-paid value of Bay State's benefits is 8.8% higher than the study group.  
2 Bay State has concluded from the results of the study that its benefits are  
3 reasonable as compared with the offerings from other employers in the labor  
4 markets.

5  
6 **XI. PENSIONS AND POSTRETIREMENT BENEFITS OTHER THAN**  
7 **PENSIONS (PBOP)**  
8

9 Q. What is Bay State's test year level of pension expense?

10 A. As shown on Mr. Skirtich's Exhibit BSG/JES-4, Bay State incurred test year  
11 pension expense of \$3,182,669.

12  
13 Q. What are postretirement benefits other than pensions?

14 A. In general, PBOPs are benefits provided to retirees and other former employees  
15 other than retirement income (e.g. pension) benefits. For Bay State, that includes  
16 employer-sponsored health care coverage and life insurance.

17  
18 Q. What was Bay State's test year level of PBOP expense?

19 A. As shown on Mr. Skirtich's Exhibit BSG/JES-4, Bay State incurred test year  
20 PBOP expense of \$2,447,613.

21  
22 Q. Do the test year amounts include pension and PBOP expense attributable only to  
23 Bay State?

1 A. Yes. The test year expenses include pension and PBOP obligations related to the  
2 jurisdictional utility, Bay State. The obligations include pension and PBOP  
3 expenses associated with Bay State employees, less amounts billed to Northern as  
4 part of Bay State's management fee to Northern and amounts allocated to capital  
5 projects. These amounts have also been reduced by any amounts associated with  
6 non-utility operations. The expenses include pension and PBOP expenses  
7 allocated to Bay State from NCSC and Northern.  
8

9 Q. How does Bay State currently recover these costs?

10 A. Bay State recovers its pension and PBOP obligations through the base rate  
11 approval granted in D.P.U. 92-111.  
12

13 Q. How does Bay State propose to recover its pension and PBOP expense in the  
14 future?

15 A. Bay State proposes a reconciling mechanism to recover its pension and PBOP  
16 expenses similar to the mechanisms approved by the Department for NSTAR,  
17 Boston Gas Company and Fitchburg Gas and Electric Light Company. See,  
18 Commonwealth Electric Company, Cambridge Electric Light Company,  
19 Commonwealth Gas Company and Boston Edison Company, d/b/a NStar, D.T.E.  
20 03-47 (2003); Boston Gas Co. d/b/a KeySpan Energy Delivery New England,  
21 D.T.E. 03-40 (2003); Fitchburg Gas and Electric Light Co., D.T.E. 04-48 (2004).  
22



1 The Department has recognized the differences between the accounting and  
2 ratemaking treatment for pension and PBOP expenses. It has therefore  
3 determined that a pension and PBOP reconciling mechanism is appropriate if a  
4 company establishes (1) the magnitude and volatility of its pension and PBOP  
5 expense, (2) the role of accounting requirements and other external factors rather  
6 than company actions with respect to pension and PBOP expense volatility, and  
7 (3) the effectiveness of a reconciling mechanism to avoid the negative effect of  
8 pension and PBOP volatility. Fitchburg Gas and Electric Light Company, D.T.E.  
9 04-48 (October 27, 2004), p. 19.

10  
11 Q. Please describe the magnitude and volatility of Bay State's pension and PBOP  
12 expenses and the need for a reconciling mechanism.

13 A. Bay State's pension and PBOP obligations and the values of the related plan  
14 assets are subject to significant impacts caused by fluctuations in long-term  
15 interest rates and in short-term trust asset returns due to the volatility in returns  
16 available in the capital markets. The fluctuations in interest rates and asset returns  
17 are not within the control of Bay State. However due to the effects on the value  
18 of the obligations and related trust assets, they significantly impact the amount of  
19 expense recognized from year to year under Statement of Financial Accounting  
20 Standards (SFAS) No. 87, "Employers' Accounting for Pensions," and SFAS No.  
21 106, "Employers' Accounting for Postretirement Benefits Other than Pensions."

Q. Specifically how have economic conditions impacted Bay State in terms of expense recognition?

A. Table SAB-1 below illustrates the actual and projected impact of market conditions on pension and PBOP expense recognition for Bay State only.

**Table SAB-1**

<b>Impact of Market Conditions On Expense Recognition</b>				
Year	Pension & PBOP Expense	Qualified Pension Expense	Prior Year Qualified Pension Asset Returns	Discount Rate
2000	1,193,000	110,000	9.5%	7.75%
2001	579,000	(616,000)	3.3%	8.00%
2002	3,968,000	651,000	1.2%	7.50%
2003	7,348,000	3,870,000	(3.4%)	7.00%
2004	7,159,000	3,832,000	19.9%	6.25%

Q. Please describe the mechanism Bay State proposes in this proceeding.

A. The proposed mechanism would establish an annual reconciling mechanism ("Pension and PBOP Mechanism" or "PPM") for the pension and PBOP expenses identified. Any difference between the pension and PBOP expenses calculated in accordance with Generally Accepted Accounting Principles (GAAP) and those amounts included in rates would be deferred and recognized as a regulatory asset or liability in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Amounts recorded as a regulatory asset or liability would be collected from or returned to customers as part of Bay State's local distribution adjustment clause ("LDAC") Mr. Joseph A. Ferro describes the PPM

1 as part of his testimony. See Exhibit BSG/JAF-1. The PPM would ensure that  
2 Bay State's customers pay no more or no less than the prudently incurred costs  
3 associated with Bay State's pension and PBOP obligations.  
4

5 Q. When would the adjustments to the factor be filed?

6 A. Bay State will file the PPM annual adjustment factor for the upcoming year with  
7 each Peak Period LDAC filing, to take effect on November 1.  
8

9 Q. Are there any additional requests?

10 A. Yes. Under SFAS No. 87, companies are required to compare the value of their  
11 pension accumulated benefit obligations ("ABO") with the fair value of assets in  
12 the related pension trusts. The ABO represents the actuarial present value of  
13 pension benefits for employee services rendered prior to the date of measurement  
14 based on past and current compensation levels and excluding the effects of  
15 assumed future increases to compensation. A company may be required to record  
16 an "additional minimum liability" ("AML") to the extent that the ABO exceeds  
17 the value of the related trust assets. The recognition of an AML would require  
18 that a company write down amounts prepaid (cash contributions made to the trust  
19 in excess of the cumulative expense recognized) into the plans, net of amounts  
20 deferred as unamortized prior service costs.  
21

1 If a mechanism is in place that allows for probable recovery of pension deferrals  
2 over a reasonable period of time, the difference between the net charge resulting  
3 from the establishment of the AML and the amounts included in rates can be  
4 deferred as a regulatory asset under SFAS No. 71. If such a mechanism is not in  
5 place, the equity of a company must be written down for the difference. As part  
6 of its request for PPM, Bay State asks the Department to grant it authority to  
7 recognize a regulatory asset for the amount of its current additional minimum  
8 liability and to adjust the regulatory asset for any future changes to the additional  
9 minimum liability. Bay State also seeks recognition that the Department intends  
10 to allow Bay State to establish a regulatory asset for the net amount of  
11 prepayments (funding the Company has made in excess of cumulative expense  
12 amounts recognized) made to the plan trust, and to allow for a reasonable rate of  
13 return in its LDAC to compensate the Company for the financing cost related to  
14 the prepaid amounts.

15  
16 Q. Did recent unfavorable economic conditions result in Bay State making any  
17 accounting entries to reflect an under-funded plan status?

18 A. Yes. Due to the lower than expected asset returns for the 2001 to 2003 period,  
19 and pursuant to SFAS No. 87, in 2004, Bay State recorded an AML because Bay  
20 State's ABO, exceeded the fair value of its pension plan assets by \$26,825,928.  
21 The offset to the AML was an intangible asset and an accumulated charge to  
22 shareholders' equity of \$19,311,901. As discussed above, Bay State requests that

1 the Department grant it authority to recognize a regulatory asset for the amount of  
2 its current additional minimum liability and to adjust the regulatory asset for any  
3 future changes to the additional minimum liability.

4  
5  
6 **XII. CONCLUSION**

7  
8 Q. Does this conclude your testimony?

9 A. Subject to reserving the ability to respond to additional issues raised during  
10 discovery or by another party during the proceeding, yes.

Bay State Gas Company

Union Salary Survey for Utilities in the Northeastern U.S.

Comparison of Bay State Union Hourly Rates & Bonuses Paid to Utilities in the Northeast

<u>Survey Title</u>	<u>Bay State 1/</u>			<u>Northeast Utilities 2/</u>		
	<u>Average Hourly Rate Per Hour</u>	<u>Average Actual Bonus Paid</u>	<u>Average Hourly Rate Per Hour Incl. Bonus</u>	<u>Average Hourly Rate Per Hour 3/</u>	<u>Average Actual Bonus Paid</u>	<u>Average Hourly Rate Per Hour Incl. Bonus</u>
CAD Draftsperson - Top	\$27.38	\$2,181	\$28.43	\$28.85	\$4,168	\$30.85
Phone Customer Service Representative - Top	\$21.68	\$1,121	\$22.22	\$26.21	\$878	\$26.63
Collector - Top	\$23.46	\$1,344	\$24.11	\$20.10	\$2,194	\$21.15
Meter Reader - Top	\$28.16	\$1,806	\$29.03	\$24.37	\$1,097	\$24.90
Distribution Crewleader - Top	\$27.71	\$2,004	\$28.67	\$30.63	\$1,536	\$31.37
Equipment Operator Top	\$27.13	\$1,957	\$28.07	\$24.46	\$1,316	\$25.09
Welder - Top	\$29.25	\$2,390	\$30.40	\$27.30	\$3,071	\$28.78
Mechanic - Top	\$28.68	\$2,241	\$29.76	\$25.51	\$0	\$25.51
Overall Average	\$26.68	\$1,881	\$27.59	\$25.93	\$1,783	\$26.79
% Above/(Below)	2.9%	5.5%	3.0%			

Notes:

1/ Bay State data effective July 7, 2004.

2/ Northeast Utility data amounts shown are from American Gas Association (AGA) 2003 Survey aged to August 2004 using an aging factor of 3.6% and includes companies from the following states--Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. Data is not available specific to a state.

3/ Reflects the median or 50th percentile of the market.

**Bay State Gas Company**

**Bay State Union Payroll Increases**

**January 2004 - May 2006**

<b><u>Bargaining Unit</u></b>	<b><u>Effective Date of Agreement</u></b>	<b><u>Date of Increase</u></b>	<b><u>Amount</u></b>	<b><u>Expiration of Agreement</u></b>
Brockton Division Union Local 273 (Utility Workers' Union of America) Operating	3/2/2002	2/1/2004 2/1/2005 2/1/2006	2.50% 2.50% 2.50%	3/1/2008
Brockton Division Union Local 273 (Utility Workers' Union of America) Clerical	3/31/2003	2/1/2004 2/1/2005 2/1/2006	2.50% 2.50% 2.50%	4/1/2009
Springfield Division Union Local 12026 (United Steelworkers of America) Operating	5/15/2004	3/8/2004 5/15/2005 5/15/2006	1.50% 2.50% 2.50%	5/15/2013
Springfield Division Union Local 12026 (United Steelworkers of America) Clerical	5/15/2004	5/15/2004 5/15/2005 5/15/2006	2.50% 1.50% 2.00%	5/15/2010
Northampton Division Union Local 486 (International Brotherhood of Electrical Workers)	6/18/2004	5/30/2004 5/30/2005 5/30/2006	2.50% 2.50% 2.50%	6/18/2010
Lawrence Division Union Local 326 (International Brotherhood of Electrical Workers)	6/19/2000	6/20/2004	2.50%	6/18/2005

Bay State Gas Company

Non-Union Salary Survey - 1

Comparison of Bay State Non-Union Base Salaries & Total Compensation to Utilities in the Northeast

Position	1/ Bay State Annual Base Salary (000's)	1/ Bay State Annual Total Cash Comp (000's)	AGA Job #	2/ Utility in Northeast Annual Base Salary (000's)	2/ Utility in Northeast Annual Total Cash Comp (000's)
Area Operations Manager	\$129.9	\$148.6	790	\$105.3	\$129.9
Call Center Supervisor	\$49.2	\$52.2	825	\$65.9	\$69.1
Corrosion Technician	\$60.6	\$63.6	037	\$52.5	\$54.7
Customer Field Service Supervisor	\$82.8	\$86.0	715	\$69.6	\$70.5
Customer Field Services Manager	\$72.4	\$77.1	720	\$89.8	\$94.7
Engineer 3	\$58.9	\$61.6	403	\$82.1	\$92.2
Engineer 4	\$76.3	\$80.3	404	\$80.1	\$81.1
Manager, Engineering	\$101.1	\$108.3	410	\$103.6	\$116.6
Measurement and Corrosion Control Supervisor	\$76.5	\$81.5	450	\$75.5	\$76.5
Meter Reader Supervisor	\$58.0	\$60.9	625	\$65.2	\$66.2
Overall Average % Above/(Below)	\$76.6 -3.0%	\$82.0 -3.7%		\$79.0	\$85.2

**Notes:**

- 1/ Bay State data effective August 2004.  
2/ Northeast Utility data amounts shown are from American Gas Association (AGA) 2003 Survey aged to August 2004 using an aging factor of 3.6% and includes companies from the following states--Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. Data is not available specific to a state.  
3/ Reflects the median or 50th percentile of the market.



**Bay State Gas Company**

**Historical Correlation of Non-Union and Union Wage Increases**

<b>Year</b>	<b>Non-Union Exempt Percent Increase</b>	<b>Non-Union Non-Exempt Percent Increase</b>	<b>Union Percent Increase</b>
1995	3.80%	4.00%	4.00%
1996	3.00%	4.00%	3.27%
1997	3.00%	4.00%	2.82%
1998	3.50%	3.50%	3.60%
1999	3.00%	3.00%	2.50%
2000	4.00%	4.00%	2.60%
2001	4.00%	4.00%	2.67%
2002	0.00%	2.50%	2.70%
2003	3.00%	3.00%	2.72%
2004	2.30%	3.00%	2.30%
2005	2.30%	3.00%	2.30%

Bay State Gas Company

Non-Union Salary Survey - 2

Comparison of Bay State Non-Union Base Salaries & Total Compensation to General Industry in Greater Metropolitan Boston Area

Position	1/ Bay State Annual Base Salary (000's)	1/ Bay State Annual Total Cash Comp (000's)	2/ All Industries in Boston Annual Base Salary 3/ (000's)	2/ All Industries in Boston Annual Total Cash Comp 3/ (000's)
Administrative Assistant	\$43.7	\$45.1	\$43.3	\$43.4
Financial Analyst 1	\$40.2	\$42.3	\$45.9	\$45.9
Financial Analyst 2	\$58.3	\$62.4	\$50.0	\$50.6
Mail Clerk	\$32.9	\$34.3	\$30.3	\$30.4
Receptionist	\$25.0	\$25.0	\$30.0	\$30.2
Overall Average	\$40.0	\$41.8	\$39.9	\$40.1
% Above/(Below)	0.3%	4.3%		

**Notes:**

1/ Bay State data effective August 2004.

2/ All Industry data amounts shown from Mercer Metropolitan Benchmark 2003 Survey aged to August 2004 using an aging factor of

3/ Reflects the median or 50th percentile of the market.

Bay State Gas Company

Non-Union Salary Survey - 3

Comparison of NCSC Base Salaries & Total Compensation to Northeast/Midwest Utilities

Position	1/ NCSC Annual Base Salary (000's)	1/ NCSC Annual Total Cash Comp (000's)	AGA Job #	2/ 3/ Northeast Utilities Annual Base Salary 5/ (000's)	2/ 3/ Northeast Utilities Annual Total Cash Comp 5/ (000's)	2/ 4/ Midwest Utilities Annual Base Salary 5/ (000's)	2/ 4/ Midwest Utilities Annual Total Cash Comp 5/ (000's)
Internal Audit Manager	\$90.2	\$95.1	155	\$94.9	\$102.3	\$90.4	\$94.8
Internal Auditor III	\$72.4	\$77.6	153	\$67.7	\$71.4	\$61.2	\$61.2
Internal Auditor II	\$59.3	\$61.9	152	\$59.6	\$59.9	N.R.	N.R.
Call Center Manager	\$88.3	\$96.9	820	\$100.7	\$104.9	\$88.2	\$97.3
Call Center Supervisor	\$48.9	\$51.1	825	\$65.9	\$69.1	\$61.3	\$66.2
Engineer V	\$84.8	\$91.3	405	N.R.	N.R.	\$87.5	\$90.8
Engineer IV	\$73.7	\$78.1	404	\$80.1	\$81.1	N.R.	N.R.
Safety Supervisor/Manager	\$83.9	\$91.7	210	\$74.7	\$75.5	\$69.1	\$71.2
Financial Analyst III	\$57.5	\$60.2	143	\$71.7	\$79.8	\$63.9	\$65.8
Area Operations Manager	\$96.0	\$106.3	790	\$105.3	\$129.9	\$97.5	\$101.5
Supervisor Gas Dispatch	\$65.7	\$69.0	480	\$70.5	\$70.7	\$70.0	\$70.0
Gas Dispatcher - Senior	\$51.0	\$51.7	476	N.R.	N.R.	\$54.3	\$58.3
Manager, Rates	\$100.9	\$113.2	305	\$87.0	\$97.7	\$107.2	\$110.5
Rate Analyst	\$37.5	\$37.5	300	N.R.	N.R.	\$53.4	\$55.6
Average (vs. "Northeast") % Above/(Below)	\$76.1 -4.7%	\$81.9 -4.4%		\$79.8	\$85.7	\$75.3	\$78.7
Average (vs. "Midwest") % Above/(Below)	\$73.1 -3.0%	\$78.5 -0.3%					

Notes:

- 1/ Bay State data effective September 2004.
- 2/ Northeast and Midwest Utility data amounts shown are from American Gas Association (AGA) 2003 Survey aged to August 2004 using an aging factor of 3.6%.
- 3/ Northeast region includes companies from the following states--Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. Data is not available specific to a state.
- 4/ Midwest region includes companies from the following states--Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Ohio, and Wisconsin.
- 5/ Reflects the median or 50th percentile of the market.

**Bay State Gas Company**

**Non-Union Merit Increase Comparison**

	<b>No. of Companies <u>Surveyed</u></b>	<b>Actual 2004 <u>%Merit Increase</u></b>	<b>Projected 2005 <u>%Merit Increase</u></b>
<b>Mercer Human Resource Consulting 1/</b>			
<i>National</i>			
Executive	1,191	3.7%	3.7%
Management	1,351	3.4%	3.5%
Exempt	1,365	3.4%	3.5%
Non-Exempt	1,343	3.3%	3.5%
<i>Utilities</i>			
Executives	35	3.5%	3.4%
Management	40	3.3%	3.6%
Exempt	40	3.3%	3.6%
Non-Exempt	39	3.3%	3.5%
<i>NE Region</i>			
Executives	775	3.7%	3.7%
Management	871	3.4%	3.5%
Exempt	881	3.4%	3.6%
Non-Exempt	864	3.3%	3.5%
<b>WorldatWork 2/</b>			
<i>National</i>			
Executives	2,102	3.4%	3.6%
Exempt	2,342	3.3%	3.5%
Non-Exempt Salaried	1,350	3.2%	3.4%
Non-Exempt Hourly Nonunion	1,570	3.2%	3.4%
<i>Utilities</i>			
Executives	82	3.7%	3.5%
Exempt	91	3.3%	3.3%
Non-Exempt Salaried	54	3.2%	3.2%
Non-Exempt Hourly Nonunion	52	3.2%	3.3%
<b>Hewitt Associates 3/</b>			
<i>National</i>			
Executives	1,046	3.7%	3.8%
Exempt	1,166	3.4%	3.6%
Non-Exempt Salaried	937	3.3%	3.5%
Non-Exempt Nonunion Hourly	806	3.3%	3.5%
<i>Utilities</i>			
Executives	58	4.0%	3.9%
Exempt	71	3.3%	3.5%
Non-Exempt Salaried	56	3.3%	3.5%
Non-Exempt Nonunion Hourly	54	3.3%	3.5%
<b>Bay State Gas Company (Performance Awards)</b>			
Executives		0.0%	0.0%
Exempt		2.3%	2.3%
Non-Exempt Nonunion Hourly		3.0%	3.0%

**Notes:**

1/ Source: 2004/2005 U.S. Compensation Planning Survey.

2/ Source: 2004/2005 Salary Budget Survey

3/ Source: 2004/2005 U.S. Salary Increase Survey

Bay State Gas Company

Comparison of Bay State's Benefit Expense As Percent of Total Compensation  
to Utilities in the Northeast

Utility	Total Salaries and Wages (000's)	Total Benefits (000's)	Total Compensation (000's)	Number of Employees	Compensation Per Employee (000's)	Benefits % of Total Salaries and Wages
Boston Gas 1/	\$109,870	\$6,551	\$116,421	1,326	\$87.8	6.0%
Colonial Gas 1/	\$21,249	\$4,233	\$25,482	232	\$109.8	19.9%
Essex Gas Company 1/	\$4,181	\$1,228	\$5,409	54	\$100.2	29.4%
Fall River Gas 1/	\$6,990	\$3,855	\$10,845	137	\$79.2	55.2%
NSTAR Gas 1/	\$26,965	\$18,099	\$45,064	431	\$104.6	67.1%
New England Gas Company 2/	\$40,965	\$17,425	\$58,390	700	\$83.4	42.5%
Median:						36.0%
Bay State Gas 3/	\$37,060	\$13,544	\$50,604	543	\$93.2	36.5%

Notes:

1/ Source: 2003 Annual Form AC-18.

2/ Source: June 30, 2004 Annual Form 2.

3/ Source: 2004 test period amounts, excluding charges from NCSC.

**Bay State Gas Company  
Benefits Study  
Non-Union Employee Benefit Plan Comparison**

**% Above/(Below)Average Employer-Paid Value**

<b>Benefit Type</b>	<b>Energy Industry 1/</b>	<b>General Industry 2/</b>
Active Health Care	+ 6.9%	+ 5.4%
Retiree Health Care	- 28.7%	+ 87.9%
Retirement Plans	+ 9.0%	+ 23.2%
Paid Time Off	+ 5.9%	+ 1.2%
Disability	- 5.4%	- 4.5%
Active Life Insurance	+ 35.1%	+ 20.4%
Retiree Life Insurance	+ 18.1%	+ 61.6%
Total Benefit Program	+ 5.6%	+ 8.8%

**Notes:**

- 1/ Results taken from February 2005 Benefit Index study completed by Hewitt comparing NiSource non-union benefits versus the average value of these benefits at fifteen energy organizations chosen by NiSource.
- 2/ Results taken from February 2005 Benefit Index study completed by Hewitt comparing NiSource non-union benefits versus the average value of these benefits at fifteen general industry organizations chosen by NiSource.